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INFO RUCNMER/MERCOSUR COLLECTIVE
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STATE PLEASE PASS TO USTR KATE DUCKWORTH
STATE PLEASE PASS TO FEDERAL RESERVE TOM CONNORS
TREASURY FOR SSENICH
COMMERCE FOR KMANN

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E.O. 12958: N/A
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SUBJECT: CHILE: ECONOMIC HIGHLIGHTS FOR DECEMBER 8-19

REFS: SANTIAGO 1065 AND PREVIOUS

11. SUMMARY: This continues a series of updates on major developments in Chile's economy since the acceleration of global financial turmoil. Between December 8 and 19, copper prices hit a new four-year low, the peso rose modestly against the dollar, and the stock market was up slightly. Copper exports were lower in November. Chile's state-owned copper company reported higher costs and lower copper production in the first three quarters of 2008. A major U.S. company plans to suspend operations in Chile. The Central Bank decided to maintain interest rates at 8.25%. The Bank also extended its program to maintain current levels of liquidity in the financial sector. Gasoline prices hit new lows. The GOC released key trade data. END SUMMARY.

Copper Prices Hit New Four Year Low

12. On the London Metals Exchange, copper closed at \$1.28/pound on December 19, down more than 7% from its close on December 5. The day's price was the lowest in more than four years.

13. The value of Chile's copper exports fell by approximately 31% in November 2008 compared to the year before to \$1.98 billion. Chile's state-owned copper company, CODELCO, reported a fall in copper production in the period January - September of almost 8% as compared with the same period last year. CODELCO's average costs for the first three quarters of 2008 rose to \$1.81/pound vs. \$1.35/pound for the same period in 2007. CODELCO projects that if copper's average price in 2009 is \$1.65, the company will break even on its revenue vs. costs. CODELCO issued a call to all its employees and contractors to increase productivity and reduce costs.

Chilean Peso Gains Ground Against Dollar

14. On December 19, the exchange rate closed at 636 Chilean Pesos to 1 U.S. Dollar (an appreciation of almost 6% from the close on December 5). Approaching the end of 2008, the Chilean peso has lost almost 22% against the dollar so far.

Stock Market Closes Up Slightly

15. The IPSA closed at 2346.46 points on December 19, up almost 2% on the close of December 5.

U.S. Company Suspends Chilean Subsidiary

¶16. Ryder System Inc. (based in Miami) is a truck rental and logistics company. The enterprise announced December 18 it will suspend operations in Argentina, Brazil, and Chile, as a result of the global economic downturn. The suspension will result in a loss of 3,100 jobs and a net savings of some \$36 million. This is one of the first major U.S. shutdowns in Chile.

Central Bank Maintains Current Interest Rate

¶17. On December 11, the Central Bank decided to maintain the interest rate at its current level (8.25%) for the third month in a row. The move had been anticipated. Despite the drop in headline inflation, the Bank cited continuing high core-inflation measures as a reason for keeping the interest rate fixed for another month.

Central Bank Extends Liquidity Program

¶18. The Central Bank announced December 10, it will continue to offer weekly currency swaps of \$500 million for a maximum period of 180 days (up from the previous maximum of 91 days). The swaps were initially to be offered only during October-December 2008. Since October, the Bank has offered \$5.5 billion in swaps, but banks have only used \$1.5 billion. The Central Bank will also continue offering weekly repos for 28 and 7 day periods, accepting bank deposits and Central Bank debt as collateral.

Gasoline Prices Hit New Lows

¶19. On December 17, gas prices were forecast to fall to their lowest levels since 2004, reaching 401 Chilean Pesos per liter of 93 octane gas. This is a decrease of 324 Chilean Pesos per liter since October alone (or a decrease of almost 45%). Some reports calculate that with this rapid decrease in prices, the average Chilean consumer has saved over 500,000 pesos (roughly \$790) in gas purchases during the year.

DIRECON Releases Trade Data

¶10. In association with the U.S. - Chile Free Trade Commission meeting December 12, the GOC released key trade data. The figures were published by the Direccion de Relaciones Economicas Internacionales (DIRECON), which is technically part of the MFA, but the equivalent of USTR. Since the signing of the U.S. - Chile FTA, DIRECON calculates trade between Chile and the U.S. has grown 155% (valued at \$15.2 billion). The U.S. is still Chile's primary trading partner, accounting for 15.2% of all commerce.

¶11. Chile's trade with the U.S. increased by 27% between January and September of 2008, compared with the same period the year before. Chile's exports during the first three quarters of 2008 were valued at about \$6.5 million, while imports were valued at approximately \$8.7 million. For the first time since 2000, Chile had a trade deficit with the U.S. in the first three quarters of 2008 (\$2.2

million). The U.S. was the primary source of foreign investment in Chile, accounting for 27% of the total (\$16.5 million).

SIMONS